

Message Text

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EXIMBANK:MR. LENTZ (SUB)

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FM SECSTATE WASHDC

TO AMEMBASSY KINSHASA IMMEDIATE

C O N F I D E N T I A L STATE 011926

E.O. 11652:

TAGS: EFIN EAID ENRG CG

SUBJECT: INGA-SHABA COST OVERRUN FINANCING

REFS: KINSHAS 1109 AND 0205

1. BELOW ARE TEXTS OF LETTERS ON INGA-SHABA LINE COST-OVERRUN FINANCING SENT JANUARY 15 BY EXIMBANK TO AMB. CUTLER AND INTERESTED GOZ OFFICIALS. LETTER TO CUTLER FROM EXIM CHAIRMAN DUBRUL (PARA 2 BELOW) SENT BY POUCH, UNCLASSIFIED. LETTERS TO NZEZA OF SNEL, FIN MIN BOFOSSA, AND BANK GOVERNOR SAMBWA FROM EXIM EXECUTIVE VICE PRESIDENT BIEM ARE BEING HAND-CARRIED BY NEVILLE ADAMS OF MK AND WILL BE DELIVERED NEXT WEEK.

2. QUOTE. DEAR AMBASSADOR CUTLER: DURING YOUR VISIT TO EXIMBANK ON DECEMBER 8, 1975, I KNOW YOU WERE GIVEN AN UNDERSTANDING OF THE CONCERN WITH WHICH WE VIEW THE OVER-ALL SITUATION IN ZAIRE AND SPECIFICALLY THE PROBLEM OF FINANCING A COST OVER-RUN ON THE INGA-SHABA TRANSMISSION
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LINE. THE APPLICATION FOR OVER-RUN ASSISTANCE WAS FINALLY

RECEIVED ON DECEMBER 29, AND OUR BOARD'S INITIAL RESPONSE IS CONTAINED IN THE ATTACHED LETTER WHICH HAS BEEN FORWARDED TO SNEL, THE DEPARTMENT OF FINANCE, AND THE BANQUE DU ZAIRE.

FACED WITH THE DILEMMA OF HIGHLY UNSATISFACTORY EXPERIENCE UNDER OUR EXISTING FINANCING FOR SNEL, THE SIZE OF THAT EXPOSURE AT \$255 MILLION, AND THE IMPORTANCE OF THE UNDERTAKING FOR ZAIRE'S FUTURE, YOU CAN APPRECIATE THAT EXIMBANK HAS GIVEN CAREFUL CONSIDERATION TO THIS CASE. INITIALLY, WE REVIEWED THE OVERALL ECONOMICS OF THE FIVE INTER-RELATED POWER-COPPER PROJECTS (INGAII-PHASE I HYDRO GENERATION, INGA-SHABA LINE, SHABA TRANSMISSION GRID, SMTF, AND GECAMINES EXPANSION) IN VIEW OF THE LARGE COST OVER-RUNS AND THE LOWER PRESENT PRICE OF COPPER. OUR GENERAL CONCLUSION FROM THIS REVIEW IS THAT THE EXCEPTIONALLY HIGH COST OF INGA POWER DELIVERED TO THE SHABA MINES IS SUBSTANTIALLY OFFSET BY THE BENEFITS OF HIGH GRADE ORE, LEAVING THIS COMPLEX OF PROJECTS WITH A BREAK-EVEN CASH COST OF COPPER OF ABOUT 60 CENTS A POUND IN 1979, WHICH IS HIGH BUT NOT OUT OF LINE WITH COSTS OF A NUMBER OF OTHER COPPER PROJECTS AROUND THE WORLD. IT APPEARS THAT THE PROJECTS WOULD BE ABLE TO PAY THEIR CASH COSTS, BUT WITHOUT LEAVING MUCH MARGIN FOR RETURN TO PRIVATE SHAREHOLDERS OR THE GOZ UNLESS COPPER PRICES INCREASE SIGNIFICANTLY.

HAVING REVIEWED THE BASIC ECONOMICS, WE NEXT TURNED TO SPECIFIC CONDITIONS FOR ANY ADDITIONAL EXIMBANK FUNDING OF THE INGA-SHABA LINE AND CONCLUDED THAT AN IMPROVED SECURITY MECHANISM IS NECESSARY WHICH WOULD GIVE LENDER TO SNEL PROTECTION SIMILAR TO THAT WHICH BENEFITS LENDERS TO SMTF AND THE GECAMINES EXPANSION PROGRAM. AS DESCRIBED IN THE ATTACHED LETTER, WE BELIEVE THE BEST WAY FOR THIS TO BE ACCOMPLISHED IS BY ESTABLISHING A TRUSTEE ACCOUNT OUTSIDE ZAIRE. POWER CONTRACTS BETWEEN SNEL AND THE TWO MINES WOULD HAVE TO BE SIGNED PROVIDING FOR PAYMENT TO SNEL OF AMOUNTS IN FOREIGN EXCHANGE SUFFICIENT TO AMORTIZE SNEL'S FOREIGN EXCHANGE DEBTS. PAYMENTS TO SNEL UNDER THIS CONTRACT WOULD BE MADE DIRECTLY TO THE TRUSTEE

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FOR THE BENEFIT OF THE FOREIGN EXCHANGE LENDERS TO SNEL PURSUANT TO AN ASSIGNMENT BY SNEL.

IT IS RECOGNIZED THAT SUCH AN ARRANGEMENT WOULD NOT BE EASY TO IMPLEMENT. NEVERTHELESS, THE AMOUNTS REQUIRED TO COMPLETE THE PROJECTS ARE SO LARGE AND THE EXISTING POSITION SO PRECARIOUS THAT IT IS BELIEVED THIS IS THE ONLY TYPE OF SECURITY ARRANGEMENT WHICH CAN ATTRACT ADDITIONAL

LOANS FOR THE INGA-SHABA LINE AND OTHER RELATED POWER PROJECTS WHICH MAY REQUIRE THEM. THE NET EFFECT WOULD BE TO PUT FOREIGN EXCHANGE LENDERS TO THE ELECTRICAL PROJECTS IN A PREFERRED POSITION OVER OTHER LENDERS TO THE

GOZ, THOUGH NOT OVER LENDERS TO THE COPPER PROJECTS, BOTH OF WHICH ALREADY HAVE THEIR OWN TRUSTEE ARRANGEMENTS. THE ARRANGEMENTS WOULD HAVE TO BE ENDORSED BY THE IMF, BUT THE IMF HAS A STRONG INTEREST IN SEEING CAPITAL PROVIDED TO COMPLETE THE ELECTRICAL PROJECTS. THE ELECTRICAL TARIFF NECESSARY FOR THESE ARRANGEMENTS WOULD BE HIGH BY INTERNATIONAL STANDARDS, BUT NOT SO HIGH, WE BELIEVE, AS TO UPSET THE ECONOMICS OF SMTF. IF THE SMTF PROJECT DOES NOT GO FORWARD, THE TARIFF CHARGED TO GECAMINES WOULD BE PROPORTIONATELY HIGHER. HOWEVER, SINCE THIS IS MERELY A TRANSFER PAYMENT FROM ONE GOZ ENTITY TO ANOTHER, IT DOES NOT RESULT IN ANY NET ECONOMIC DIFFERENCE TO THE GOVERNMENT.

CONCERNING THE DETAILS OF SNEL'S APPLICATION, EXIMBANK WOULD APPRECIATE RECEIVING COMMENTS FROM THE LOCAL BUREC REPRESENTATIVES ON THE REDUCTION IN TOTAL OVER-RUN COSTS FROM \$150 MILLION TO \$135 MILLION, AS IT APPEARED TO US THAT \$150 MILLION WAS ALREADY A MINIMAL, BEST-CASE ESTIMATE. FINALLY, THE APPLICATION REQUESTS AN \$11.4 MILLION INCREASE IN EXIMBANK'S LOCAL COST GUARANTEE AND APPROVAL OF AN OVER-RUN CREDIT AT THE ORIGINAL 6 PERCENT INTEREST RATE DESPITE AN INDICATION FROM THE NOVEMBER 1975 EXIMBANK MISSION THAT NEITHER ARE IN THE CARDS GIVEN CURRENT LENDING POLICY.

PLEASE FEEL FREE TO DRAW ON ANY OF THE ABOVE IN EXPLAINING EXIMBANK'S POSITION.
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SINCERELY, STEPHEN M. DUBRUL, JR. UNQUOTE.

3. QUOTE. RE: ZAIRE - CREDIT NO. 4684, GUARANTEE NOS. 4685 AND 4686, SOCIETE NATIONALE D'ELECTRICITE (SNEL)

GENTLEMEN: THIS WILL ACKNOWLEDGE YOUR LETTER OF DECEMBER 17, 1975, MAKING APPLICATION TO EXIMBANK FOR ADDITIONAL FINANCING ASSISTANCE NECESSARY TO COMPLETE THE INGA-SHABA EHVDC TRANSMISSION LINE. WE NOTE THAT TOTAL PROJECT COSTS ARE CURRENTLY ESTIMATED AT \$478.8 MILLION OF WHICH THE U.S. COST COMPONENT IS \$303.3 MILLION MILLION, THE LATTER REPRESENTING AN INCREASE OF \$76.1 MILLION OVER THE ORIGINAL U.S. COST ESTIMATE.

YOU WILL APPRECIATE THAT CERTAIN BASIC CONDITIONS OF THE SUBJECT CREDIT AND GUARANTEES HAVE NOT BEEN FULFILLED IN THAT: (1) INTEREST AND COMMITMENT FEE PAYMENTS TO EXIMBANK AND PRIVATE LENDERS HAVE BEEN IN ARREARS FOR MANY MONTHS, AND (2) THE GOVERNMENT OF ZAIRE IS RESPONSIBLE UNDER THE AGREEMENTS FOR MEETING THE OBLIGATIONS OF SNEL TO THE EXTENT THAT THERE IS A SHORTFALL IN SNEL'S REVENUES. FOR EXAMPLE, \$1.3 MILLION OF INTEREST DUE EXIMBANK AUGUST

10, 1975, ON CREDIT NO. 4684 IS STILL UNPAID, DESPITE THE FACT THAT THE PRIVATE LENDERS HAVE BEEN PAID, WHILE UNDER CREDIT NO. 4539 AND GUARANTEE NO. 4540 IN YOUR FAVOR FOR THE WESTINGHOUSE EQUIPMENT AT THE INGA SITE BOTH EXIMBANK AND THE PRIVATE LENDER HAVE NOT RECEIVED THE INTEREST AND FEE PAYMENTS ALSO DUE AUGUST 10, 1975.

THIS IS NOT TO SAY THAT EXIMBANK IS UNMINDFUL OF THE IMPORTANCE OF THE INGA-SHABA LINE AND OUR MUTUAL INTEREST IN COMPLETING THE PROJECT WITHOUT FURTHER DELAY. NONETHELESS, CONSIDERING OUR EXPERIENCE THUS FAR, THE BOARD OF DIRECTORS HAS CONCLUDED THAT AN IMPROVED SECURITY MECHANISM MUST ACCOMPANY ANY ADDITIONAL FINANCING ASSISTANCE. THE BOARD BELIEVES THE BEST WAY FOR THIS TO BE ACCOMPLISHED IS BY ESTABLISHING A TRUSTEE ACCOUNT OUTSIDE ZAIRE INTO WHICH AMOUNTS DUE SNEL FOR POWER FROM THE PRIMARY CONSUMERS IN SHABA, GECAMINES AND SOCIETE MINIERE

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DE TENKE-FUNGURUME (SMTF), WOULD BE PAID DIRECTLY IN FOREIGN EXCHANGE PURSUANT TO AN ASSIGNMENT BY SNEL. SUCH PAYMENTS WOULD BE IN AN AMOUNT SUFFICIENT TO AMORTIZE SNEL'S EXISTING AND PROPOSED FOREIGN EXCHANGE DEBT OBLIGATIONS, INCLUDING INTEREST DURING CONSTRUCTION, RELATING TO THE GENERATION, TRANSMISSION, AND DISTRIBUTION OF INGA POWER AND WOULD BE MADE DIRECTLY TO THE TRUSTEE FOR THE BENEFIT OF FOREIGN EXCHANGE LENDERS TO SNEL. IT SHOULD BE NOTED THAT SIMILAR ARRANGEMENTS HAVE BEEN CONCLUDED WITH RESPECT TO THE WORLD BANK AND RELATED FINANCING FOR THE GECAMINES EXPANSION PROGRAM AS WELL AS FOR THE SMTF PROJECT.

IF YOU, AS WELL AS ANY OTHER GOVERNEMENT OF ZAIRE AGENCIES THAT MAY BE INVOLVED, AGREE TO THE SECURITY CONCEPT OUTLINED ABOVE, PLEASE SO ADVISE US. IT WILL THEN BE POSSIBLE FOR EXIMBANK TO GIVE FURTHER DETAILED CONSIDERATION TO YOUR APPLICATION.

SINCERELY YOURS, DAVID O. BEIM, EXECUTIVE VICE PRESIDENT.
KISSINGER

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